

BABSON CAPITAL PARTICIPATION INVESTORS
Form N-CSRS
September 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-5531

Babson Capital Participation Investors

(Exact name of registrant as specified in charter)

1500 Main Street, P.O. Box 15189, Springfield, MA 01115-5189

(Address of principal executive offices) (Zip code)

Christopher A. DeFrancis, Vice President and Secretary
1500 Main Street, Suite 2800, P.O. Box 15189, Springfield, MA 01115-5189

(Name and address of agent for service)

Registrant's telephone number, including area code: 413-226-1000

Date of fiscal year end: 12/31

Date of reporting period: 06/30/13

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct

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comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 110 F Street NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORT TO STOCKHOLDERS.

Attached hereto is the semi-annual shareholder report transmitted to shareholders pursuant to Rule 30e-1 of the Investment Company Act of 1940, as amended.

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Adviser

Babson Capital Management LLC
1500 Main Street, P.O. Box 15189
Springfield, Massachusetts 01115-5189

Independent Registered Public Accounting Firm

KPMG LLP
Boston, Massachusetts 02110

Counsel to the Trust

Ropes & Gray LLP
Boston, Massachusetts 02110

Custodian

State Street Bank and Trust Company
Boston, Massachusetts 02116

Transfer Agent & Registrar

DST Systems, Inc.
P.O. Box 219086
Kansas City, MO 64121-9086
1-800-647-7374

Internet Website

www.babsoncapital.com/mpv

Babson Capital Participation Investors
c/o Babson Capital Management LLC
1500 Main Street, Suite 2200
Springfield, Massachusetts 01115
(413) 226-1516

Investment Objective and Policy

Babson Capital Participation Investors (the "Trust") is a closed-end management investment company, first offered to the public in 1988, whose shares are traded on the New York Stock Exchange under the trading symbol "MPV". The Trust's share price can be found in the financial section of most newspapers under either the New York Stock Exchange listings or Closed-End Fund Listings.

The Trust's investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust's principal investments are privately placed, below-investment grade (as defined below), long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. At least half of these investments normally include equity features such as warrants, conversion rights, or other equity features that provide the Trust with the opportunity to realize capital gains. The Trust will also invest in publicly traded debt securities (including high yield securities), again with an emphasis on those with equity features, and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay principal. The Trust is prohibited from purchasing below-investment grade securities if, after giving effect to the purchase, more than 75% of the Trusts' total assets

Babson Capital Management LLC ("Babson Capital") manages the Trust on a total return basis. The Trust distributes substantially all of its net income to shareholders each year. Accordingly, the Trust pays dividends to shareholders in January, May, August, and November. All registered shareholders are automatically enrolled in the Dividend Reinvestment and Cash Purchase Plan unless cash distributions are requested.

Form N-Q

The Trust files its complete schedule of portfolio holdings with the U.S. Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. This information is available (i) on the SEC's website at <http://www.sec.gov>; and (ii) at the SEC's Public Reference Room in Washington, DC (which information on their operation may be obtained by calling 1-800-SEC-0330). A complete schedule of portfolio holdings as of each quarter-end is available upon request by calling, toll-free, 866-399-1516.

Proxy Voting Policies & Procedures; Proxy Voting Record

The Trustees of the Trust have delegated proxy voting responsibilities relating to the voting of securities held by the Trust to Babson Capital. A description of Babson Capital's proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 866-399-1516; (2) on the Trust's website:

would be invested in below-investment grade securities, which are securities that are rated, at the time of purchase, BB or B by S&P or Ba or B by Moody's, or, if unrated, are believed by Babson Capital Management LLC ("Babson Capital") to be of an equivalent quality. In addition, the Trust will not invest in any debt security that is rated, at the time of acquisition, below B by S&P or Moody's, or if unrated, is believed by Babson Capital to be of an equivalent quality. In addition, the Trust may temporarily invest in high quality, readily marketable securities.

<http://www.babsoncapital.com/mpv>; and (3) on the SEC's website at <http://www.sec.gov>. Information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) on the Trust's website: <http://www.babsoncapital.com/mpv>; and (2) on the SEC's website at <http://www.sec.gov>.

TO OUR SHAREHOLDERS

We are pleased to present the June 30, 2013 Quarterly Report of Babson Capital Participation Investors (the “Trust”).

The Board of Trustees declared a quarterly dividend of 27 cents per share, payable on August 16, 2013 to shareholders of record on August 5, 2013. The Trust paid a 27 cent per share dividend for the preceding quarter. The Trust earned 26 cents per share of net investment income for the second quarter of 2013, compared to 26 cents per share in the previous quarter.

During the second quarter, the net assets of the Trust decreased to \$131,772,834 or \$12.90 per share compared to \$133,137,561 or \$13.05 per share on March 31, 2013. This translates into a 0.9% total return for the quarter, based on the change in the Trust’s net assets assuming the reinvestment of all dividends. Longer term, the Trust returned 15.5%, 14.1%, 9.9%, and 13.7% for the 1-, 3-, 5-, and 10-year time periods, respectively, based on the change in the Trust’s net assets assuming the reinvestment of all dividends.

The Trust’s share price increased 2.0% during the quarter, from \$14.35 per share as of March 31, 2013 to \$14.63 per share as of June 30, 2013. The Trust’s market price of \$14.63 per share equates to a 13.4% premium over the June 30, 2013 net asset value per share of \$12.90. The Trust’s average quarter-end premium for the 3, 5 and 10-year periods was 18.2%, 10.4% and 10.9%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, increased 3.1% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, decreased 1.4% for the quarter.

The Trust closed three new private placement investments and three “follow-on” investments in existing portfolio companies during the second quarter. The three new investments were in ARI Holding Corporation, CG Holdings Manufacturing Company and Hi-Rel Group LLC, while the three follow-on investments were in F G I Equity LLC, K & N Parent, Inc. and Safety Infrastructure Solutions. A brief description of these investments can be found in the Consolidated Schedule of Investments. The total amount invested by the Trust in these six transactions was \$4,709,211.

U.S. middle market buyout activity continued at a sluggish pace during the second quarter of 2013. In fact, the level of private equity backed deals completed in the first half of 2013 was at its lowest level since 2009. While there is a shortage of quality deal flow, there is plenty of equity capital and senior and mezzanine debt looking to be invested. The result is that attractive companies are being aggressively pursued by buyers and lenders alike, pushing both purchase price multiples and leverage levels up. As we head into the third quarter of 2013, most market participants expect deal flow to improve over the remainder of the year. We currently have a number of deals under review and hope that our new investment activity in the second half of the year will exceed that of the first half of the year. We continue to be cautious, though, in light of the more aggressive leverage multiples and mezzanine pricing we are seeing in the market. We intend to maintain the same discipline and investment philosophy, based on taking prudent levels of risk and getting paid appropriately for the risks taken, that has served us well for so many years.

The quality of the Trust’s existing portfolio remained solid through the second quarter. We are pleased that sales and earnings for the Trust’s portfolio as a whole continued their upward momentum. We had no exits from the portfolio in the second quarter, but we have a healthy backlog of companies in the process of being sold and expect the second half of the year to be active for realizations. On the negative side of the ledger, however, we saw refinancing activity in the portfolio continue at a high level in the second quarter. These transactions, in which the debt instruments held by the Trust were fully or partially prepaid, are being driven by companies seeking to take advantage of low interest rates and plentiful credit. We had six portfolio companies fully or partially prepay the Trust’s debt holdings in the second quarter, on top of eight in the first quarter. As mentioned in prior reports, the loss of these income-producing investments, unless replaced by new investments, could adversely affect the Trust’s ability to sustain its dividend level

in the quarters ahead.

(Continued)

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Thank you for your continued interest in and support of Babson Capital Participation Investors.

Sincerely,

Michael L. Klofas
President

* Based on market value of total investments (including cash)

Cautionary Notice: Certain statements contained in this report may be “forward looking” statements. Investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made and which reflect management’s current estimates, projections, expectations or beliefs, and which are subject to risks and uncertainties that may cause actual results to differ materially. These statements are subject to change at any time based upon economic, market or other conditions and may not be relied upon as investment advice or an indication of the Trust’s trading intent. References to specific securities are not recommendations of such securities, and may not be representative of the Trust’s current or future investments. We undertake no obligation to publicly update forward looking statements, whether as a result of new information, future events, or otherwise.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

June 30, 2013

(Unaudited)

Assets:

Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value

(Cost - \$103,576,891) \$ 96,755,169

Corporate restricted securities at market value

(Cost - \$9,012,490) 9,075,198

Corporate public securities at market value

(Cost - \$27,867,626) 28,792,409

Short-term securities at amortized cost

5,449,374

Total investments (Cost - \$145,906,381)

140,072,150

Cash

6,168,843

Interest receivable

1,577,178

Receivable for investments sold

45,339

Other assets

26,254

Total assets

147,889,764

Liabilities:

Note payable

15,000,000

Deferred tax liability

530,514

Investment advisory fee payable

296,489

Tax payable

149,095

Interest payable

27,267

Accrued expenses

113,565

Total liabilities

16,116,930

Total net assets

\$ 131,772,834

Net Assets:

Common shares, par value \$.01 per share

\$ 102,142

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Additional paid-in capital	95,384,810
Retained net realized gain on investments, prior years	33,733,164
Undistributed net investment income	4,043,523
Accumulated net realized gain on investments	4,873,940
Net unrealized depreciation of investments	(6,364,745)
Total net assets	\$ 131,772,834
Common shares issued and outstanding (14,785,750 authorized)	10,214,201
Net asset value per share	\$ 12.90

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF OPERATIONS

For the six months ended June 30, 2013

(Unaudited)

Investment Income:	
Interest	\$ 6,341,792
Dividends	101,515
Other	116,602
 Total investment income	 6,559,909
 Expenses:	
Investment advisory fees	596,049
Interest	306,750
Trustees' fees and expenses	168,000
Professional fees	113,400
Reports to shareholders	45,000
Custodian fees	15,000
Other	11,548
 Total expenses	 1,255,747
 Investment income - net	 5,304,162
 Net realized and unrealized gain on investments:	
Net realized gain on investments before taxes	1,197,232
Income tax expense	(1,572)
Net realized gain on investments after taxes	1,195,660
Net change in unrealized depreciation of investments before taxes	(206,909)
Net change in deferred income tax expense	(62,880)
Net change in unrealized depreciation of investments after taxes	(269,789)
 Net gain on investments	 925,871
 Net increase in net assets resulting from operations	 \$ 6,230,033

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2013

(Unaudited)

Net increase in cash:	
Cash flows from operating activities:	
Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$2,061,556
Purchases of portfolio securities	(16,200,894)
Proceeds from disposition of portfolio securities	18,302,305
Interest, dividends and other income received	5,735,866
Interest expense paid	(306,750)
Operating expenses paid	(975,455)
Income taxes paid	(918,072)
Net cash provided by operating activities	7,698,556
Cash flows from financing activities:	
Cash dividends paid from net investment income	(5,503,240)
Receipts for shares issued on reinvestment of dividends	422,439
Net cash used for financing activities	(5,080,801)
Net increase in cash	2,617,755
Cash - beginning of year	3,551,088
Cash - end of period	\$6,168,843
Reconciliation of net increase in net assets to net cash provided by operating activities:	
Net increase in net assets resulting from operations	\$ 6,230,033
Decrease in investments	2,798,684
Increase in interest receivable	(445,304)
Decrease in other assets	(45,339)
Increase in payable for investments purchased	40,560
Increase in deferred tax liability	62,880
Increase in investment advisory fee payable	8,772
Decrease in tax payable	(916,500)
Increase in accrued expenses	(35,230)
Total adjustments to net assets from operations	1,468,523
Net cash provided by operating activities	\$ 7,698,556

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	For the six months ended 06/30/2013 (Unaudited)	For the year ended 12/31/2012
Increase in net assets:		
Operations:		
Investment income - net	\$ 5,304,162	\$ 10,965,123
Net realized gain on investments after taxes	1,195,660	2,488,796
Net change in unrealized depreciation of investments after taxes	(269,789)	4,059,101
Net increase in net assets resulting from operations	6,230,033	17,513,020
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2013 - 30,952; 2012 - 71,363)	422,439	1,013,772
Dividends to shareholders from:		
Net investment income (2013 - \$0.27 per share; 2012 - \$1.04 per share)	(2,753,763)	(10,584,312)
Net realized gains (2013 - \$0.00 per share; 2012 - \$0.04 per share)	—	(388,021)
Total increase in net assets	3,898,709	7,554,459
Net assets, beginning of year	127,874,125	120,319,666
Net assets, end of period/year (including undistributed net investment income of \$4,043,523 and \$1,493,124, respectively)	\$ 131,772,834	\$ 127,874,125

See Notes to Consolidated Financial Statements

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Selected data for each share of beneficial interest outstanding:

	For the six months ended 06/30/2013 (Unaudited)	For the years ended December 31,				
		2012	2011	2010	2009	2008
Net asset value:						
Beginning of year	\$ 12.56	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10	\$ 12.84
Net investment income (a)	0.52	1.08	1.14	1.02	0.94	1.08
Net realized and unrealized gain (loss) on investments	0.09	0.64	0.08	0.95	(0.13)	(1.82)
Total from investment operations	0.61	1.72	1.22	1.97	(0.81)	0.74
Dividends from net investment income to common shareholders	(0.27)	(1.04)	(1.23)	(1.00)	(1.00)	(1.00)
Dividends from net realized gain on investments to common shareholders	—	(0.04)	(0.00)(b)	—	—	—
Increase from dividends reinvested	(0.00)(b)	0.02	0.02	0.01	0.00	0.00
Total dividends	(0.27)	(1.06)	(1.21)	(0.99)	(1.00)	(1.00)
Net asset value:						
End of period/year	\$ 12.90	\$ 12.56	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10
Per share market value:						
End of period/year	\$ 14.63	\$ 13.91	\$ 15.85	\$ 13.88	\$ 12.20	\$ 9.05
Total investment						

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return

Net asset value (c)	4.84	%	15.89	%	10.56	%	18.71	%	7.60	%	(6.01	%)
Market value (c)	7.25	%	(4.54	%)	24.16	%	22.94	%	40.86	%	(25.36	%)
Net assets (in millions):												
End of period/year	\$ 131.77		\$ 127.87		\$ 120.32		\$ 119.54		\$ 108.93		\$ 110.18	
Ratio of operating expenses to average net assets	1.46	%(e)	1.51	%	1.42	%	1.46	%	1.41	%	1.33	%
Ratio of interest expense to average net assets	0.47	%(e)	0.49	%	0.56	%	0.61	%	0.63	%	0.58	%
Ratio of income tax expense to average net assets (d)	0.00	%(e)	0.83	%	0.20	%	0.46	%	0.00	%	0.00	%
Ratio of net expenses to average net assets	1.93	%(e)	2.83	%	2.18	%	2.53	%	2.04	%	1.91	%
Ratio of net investment income to average net assets	8.18	%(e)	8.82	%	9.33	%	8.96	%	8.55	%	8.74	%
Portfolio turnover	12	%	34	%	21	%	27	%	23	%	32	%

(a) Calculated using average shares.

(b) Rounds to less than \$0.01 per share.

(c) Net asset value return represents portfolio returns based on change in the Trust's net asset value assuming the reinvestment of all dividends and distributions which differs from the total investment return based on the Trust's market value due to the difference between the Trust's net asset value and the market value of its shares outstanding; past performance is no guarantee of future results.

(d) As additional information, this ratio is included to reflect the taxes paid on retained long-term gains. These taxes paid are netted against realized capital gains in the Statement of Operations. The taxes paid are treated as deemed distributions and a credit for the taxes paid is passed on to shareholders.

(e) Annualized

Senior borrowings:

\$ 15	\$ 15	\$ 15	\$ 12	\$ 12	\$ 12
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Total principal
amount (in millions)

Asset coverage per
\$1,000

of indebtedness	\$ 9,785	\$ 9,525	\$ 9,021	\$ 10,962	\$ 10,077	\$ 10.181
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See Notes to Consolidated Financial Statements

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CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2013

(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities - 80.31%: (A)				
Private Placement Investments - 73.42%				
1492 Acquisition LLC				
A leading producer of premium Italian cured meats and deli meats in the U.S.				
14% Senior Subordinated Note due 2019	\$1,152,411	10/17/12	\$1,131,097	\$1,111,395
Limited Liability Company Unit Class A Common (B)	11,364 uts.	10/17/12	11,364	17,566
Limited Liability Company Unit Class A Preferred (B)	102 uts.	10/17/12	102,270	106,054
			1,244,731	1,235,015
A E Company, Inc.				
A designer and manufacturer of machined parts and assembly structures for the commercial and military aerospace industries.				
	184,615			
Common Stock (B)	shs.	11/10/09	184,615	447,097
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	92,308 shs.	11/10/09	68,566	223,550
			253,181	670,647
A H C Holding Company, Inc.				
A designer and manufacturer of boilers and water heaters for the commercial sector.				
Limited Partnership Interest (B)	12.26% int.	11/21/07	119,009	170,092
A S C Group, Inc.				
A designer and manufacturer of high reliability encryption equipment, communications products, computing systems and electronic components primarily for the military and aerospace sectors.				
Limited Liability Company Unit Class A (B)	2,186 uts.	*	78,340	118,276
Limited Liability Company Unit Class B (B)	1,479 uts.	10/09/09	52,999	80,023
* 10/09/09 and 10/27/10.			131,339	198,299
A W X Holdings Corporation				
A provider of aerial equipment rental, sales and repair services to non-residential construction and maintenance contractors operating in the State of Indiana.				
10.5% Senior Secured Term Note due 2014 (D)	\$420,000	05/15/08	413,944	210,000
13% Senior Subordinated Note due 2015 (D)	\$420,000	05/15/08	384,626	—
Common Stock (B)	60,000 shs.	05/15/08	60,000	—
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	21,099 shs.	05/15/08	35,654	—
			894,224	210,000

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ABC Industries, Inc.

A manufacturer of mine and tunneling ventilation products in the U.S.

13% Senior Subordinated Note due 2019	\$500,000	08/01/12	451,701	486,299
Preferred Stock Series A (B)	125,000 shs.	08/01/12	125,000	115,895
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	22,414 shs.	08/01/12	42,446	—
			619,147	602,194

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2013

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
ACP Cascade Holdings LLC				
A manufacturer and distributor of vinyl windows and patio doors throughout the northwestern United States.				
Limited Liability Company Unit Class B (B)	32 shs.	11/09/12	\$—	\$—
Advanced Manufacturing Enterprises LLC				
A designer and manufacturer of large, custom gearing products for a number of critical customer applications.				
14% Senior Subordinated Note due 2018	\$1,134,615	12/07/12	1,118,651	1,080,812
Limited Liability Company Unit (B)	1,154 uts.	12/07/12	115,385	78,994
			1,234,036	1,159,806
Advanced Technologies Holdings				
A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	421 shs.	12/27/07	208,456	799,310
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	52,730
			230,056	852,040
All Current Holding Company				
A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
12% Senior Subordinated Note due 2015	\$603,697	09/26/08	579,817	603,697
Common Stock (B)	713 shs.	09/26/08	71,303	128,054
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	46,584	91,056
			697,704	822,807
American Hospice Management Holding LLC				
A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2013	\$1,237,502	*	1,229,414	1,237,502
Preferred Class A Unit (B)	1,706 uts.	**	170,600	241,736
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	177,139
Common Class B Unit (B)	16,100 uts.	01/22/04	1	—
Common Class D Unit (B)	3,690 uts.	09/12/06	—	—
			1,480,804	1,656,377
* 01/22/04 and 06/09/08.				
** 01/22/04 and 09/12/06.				
AMS Holding LLC				
A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches.				

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14.25% Senior Subordinated Note due 2019	\$1,155,361	10/04/12	1,134,108	1,143,133
Limited Liability Company Unit Class A Preferred (B)	114 uts.	10/04/12	113,636	113,630
			1,247,744	1,256,763

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2013

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Apex Analytix Holding Corporation				
A provider of audit recovery and fraud detection services and software to commercial and retail businesses in the U.S. and Europe.				
12.5% Senior Subordinated Note due 2017	\$1,012,500	04/28/09	\$928,354	\$1,012,500
Preferred Stock Series B (B)	1,623 shs.	04/28/09	162,269	216,400
Common Stock (B)	723 shs.	04/28/09	723	80,400
			1,091,346	1,309,300
Arch Global Precision LLC				
A leading manufacturer of high tolerance precision components and consumable tools.				
14.75% Senior Subordinated Note due 2018	\$782,008	12/21/11	765,167	781,425
Limited Liability Company Unit Class B (B)	28 uts.	12/21/11	28,418	37,032
Limited Liability Company Unit Class C (B)	222 uts.	12/21/11	221,582	288,722
			1,015,167	1,107,179
ARI Holding Corporation				
A leading national supplier of products used primarily by specialty contractors.				
13.5% Senior Subordinated Note due 2020	\$1,305,336	05/21/13	1,279,525	1,267,238
Preferred Stock Series (B)	29 shs.	05/21/13	289,604	275,135
Common Stock (B)	29 shs.	05/21/13	32,178	30,571
			1,601,307	1,572,944
Arrow Tru-Line Holdings, Inc.				
A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
12% Senior Subordinated Note due 2016 (D)	\$780,136	05/18/05	717,775	780,136
Preferred Stock (B)	33 shs.	10/16/09	33,224	69,149
Common Stock (B)	263 shs.	05/18/05	263,298	—
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	69 shs.	05/18/05	59,362	—
			1,073,659	849,285
Baby Jogger Holdings LLC				
A designer and marketer of premium baby strollers and stroller accessories.				
14% Senior Subordinated Note due 2019	\$942,213	04/20/12	925,827	961,057
Common Stock (B)	754 shs.	04/20/12	75,376	119,597
			1,001,203	1,080,654
Blue Wave Products, Inc.				
A distributor of pool supplies.				
10% Senior Secured Term Note due 2018	\$317,730	10/12/12	311,955	309,644
13% Senior Subordinated Note due 2019	\$320,031	10/12/12	298,016	308,869

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Common Stock (B)	51,064 shs.	10/12/12	51,064	33,892
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	20,216 shs.	10/12/12	20,216 681,251	13,418 665,823

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2013

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
BP SCI LLC				
A leading value-added distributor of branded pipes, valves, and fittings (PVF) to diversified end markets.				
14% Senior Subordinated Note due 2018	\$1,056,552	10/17/12	\$1,037,357	\$1,022,861
Limited Liability Company Unit Class A (B)	417 uts.	10/17/12	41,667	34,173
Limited Liability Company Unit Class B (B)	167 uts.	10/17/12	166,666	175,962
			1,245,690	1,232,996
Bravo Sports Holding Corporation				
A designer and marketer of niche branded consumer products including canopies, trampolines, in-line skates, skateboards, and urethane wheels.				
12.5% Senior Subordinated Note due 2014	\$1,207,902	06/30/06	1,194,011	1,147,507
Preferred Stock Class A (B)	465 shs.	06/30/06	141,946	55,985
Common Stock (B)	1 sh.	06/30/06	152	—
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	164 shs.	06/30/06	48,760	19,676
			1,384,869	1,223,168
C D N T, Inc.				
A value-added converter and distributor of specialty pressure sensitive adhesives, foams, films, and foils.				
10.5% Senior Secured Term Note due 2014	\$107,268	08/07/08	106,776	107,268
12.5% Senior Subordinated Note due 2015	\$429,070	08/07/08	412,123	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	60,919
Warrant, exercisable until 2018, to purchase				